

*Position 5*  
**UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT  
RURAL HOUSING SERVICE**

**LOAN NOTE GUARANTEE**

	State
	County
	Date of Note
Borrower Name	RHS Case No.
Lender	Lender IRS ID No.
Lender's Address	Principal Amount of Loan \$

This Loan Note Guarantee is issued under Lender Agreement for Guaranteed Single Family Housing Loans dated \_\_\_\_\_

\_\_\_\_\_ in connection with the above identified loan.

In consideration of the making of the subject loan by the Lender, the United States of America, acting through the Rural Housing Service of the Rural Development mission area (herein called "RHS"), pursuant to Title V of the Housing Act of 1949 (42 U.S.C. 1471 et. sec.), agrees that, subject to the terms and conditions herein, it will pay to the Lender the lesser of

1. Any loss of an amount equal to 90 percent of the principal amount actually advanced to the Borrower, or
2. Any loss sustained by the lender of an amount up to 35 percent of the principal amount actually advanced to the Borrower, plus 85 percent of any additional loss sustained by the Lender of an amount up to the remaining 65 percent the principal amount actually advanced to the Borrower.

Loss includes only (a) principal and interest evidenced by the Note; (b) any loan subsidy due and owing; and (c) any principal and interest indebtedness on RHS approved protective advances for protection and preservation of collateral. Interest (including any subsidy) shall be covered by the Loan Note Guarantee to the date of the final loss settlement when the Lender conducts liquidation of collateral in an expeditious manner. Net proceeds received from liquidation of the collateral will be used in calculating the amount of loss sustained by the Lender. If the Lender acquires the collateral, the net proceeds from collateral for calculating loss shall be determined by RHS as follows: (i) the collateral will be appraised at its current market value as of the date of acquisition by the Lender then (ii) deduct from such appraised value an estimate of liquidation costs which will include an allowance for the estimated time the property will be held by the Lender.

If RHS conducts the liquidation of the loan, loss occasioned to a Lender by accruing interest after the date RHS accepts responsibility for the liquidation will not be covered by the Loan Note Guarantee.

Lender may sell the guaranteed loan only to a Lender which meets the qualifications and in the manner as provided in Subpart D, 7 CFR 1980. Such loan must not be in default at the time of the sale.

Lender may obtain participation in its loan under its procedures. Participation means a sale of an interest in the loan wherein the Lender retains the note, collateral securing the note, and all responsibility for all loan servicing and liquidation. A participant has no rights under this instrument.

**CONDITIONS OF THE GUARANTEE**

**1. Loan Servicing**

Lender will be responsible for servicing the entire loan and Lender will remain mortgagee and/or secured party of record. The Lender may sell the loan servicing rights to an RHS eligible Lender when the purchasing Lender agrees to be bound by all of the same terms as the selling Lender and this agreement and the RHS Lender Agreement for Guaranteed Single Family Housing Loans.

**2. Full Faith and Credit**

The Loan Note Guarantee constitutes an obligation supported by full faith and credit of the United States and is incontestable except for fraud or misrepresentation of which the lender has actual knowledge at the time it becomes such lender or which the lender participates in or condones. A note which provides for the payment of interest on interest shall not be guaranteed. If the note to which this instrument is attached or relates provides for the payment of interest on interest, then this Loan Note Guarantee is void. In addition, the Loan Note Guarantee will be unenforceable by the lender to the extent any loss is occasioned by violation of usury laws, negligent servicing, or failure to obtain the required security regardless of the time at which RHS acquires knowledge of the forgoing. Any losses

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occasioned will be unenforceable by the lender to the extent that loan funds are used for purposes other than those approved by RHS in its Form RD 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee." Negligent servicing is defined as the failure to perform those services which a reasonably prudent lender would perform in servicing its own loan portfolio of loans that are not guaranteed. The term includes not only the concept of a failure to act but also not acting in a timely manner or acting contrary to the manner in which a reasonably prudent lender would act up to the time of loan maturity or until a final loss is paid.

3. Lender will receive all payments or principal and interest and any loan subsidy on the account of the entire loan.

4. Protective Advances made by the Lender pursuant to RHS regulations will be guaranteed against a percentage of the loss to the same extent as provided in this Loan Note Guarantee.

5. The Loan Note Guarantee will terminate automatically (a) upon full payment of the guaranteed loan; or (b) upon full payment of any loss obligation hereunder; or (c) upon written notice from the Lender to RHS that the guarantee will terminate provided this Loan Note Guarantee is returned to be canceled by RHS.

6. Any amount due under this instrument will be determined and paid, as provided in 7 CFR Part 1980, Subpart D in effect on the date of this instrument.

7. All notices and actions will be initiated through RHS \_\_\_\_\_ for \_\_\_\_\_ (State) at the following mailing address:

\_\_\_\_\_  
\_\_\_\_\_

UNITED STATES OF AMERICA  
RURAL DEVELOPMENT  
RURAL HOUSING SERVICE

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Assumption Agreement by: \_\_\_\_\_ Dated: \_\_\_\_\_  
(Transferee)

Assumption Approved by RHS: \_\_\_\_\_ Dated: \_\_\_\_\_  
(new note, if taken, is attached)

Assumption Agreement by: \_\_\_\_\_ Dated: \_\_\_\_\_  
(Transferee)

Assumption Approved by RHS: \_\_\_\_\_ Dated: \_\_\_\_\_  
(new note, if taken, is attached)

Used by Rural Development to  
guarantee Rural Housing loans.

(see reverse)

<u>PROCEDURE FOR PREPARATION</u>	: RD Instruction 1980-D.
<u>PREPARED BY</u>	: Rural Development official.
<u>NUMBER OF COPIES</u>	: Original and two.
<u>SIGNATURE REQUIRED</u>	: Rural Development Approval official.
<u>DISTRIBUTION OF COPIES</u>	: Original attached to lender's note, copy attached to lender's copy of note. Copy attached to copy of lender's note and retained in Agency case file.

(03-18-98) PN 288

**-2- (Forms Manual Insert - Form RD 1980-17)**